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**"CRITICAL OBSERVATIONS FROM THE DEAN OF
THE CALIFORNIA LEGISLATURE" - #2**

JANUARY 23, 2003

**"HOW BEST WE APPROACH SOLVING OUR
CALIFORNIA BUDGET EMERGENCY?"**

**"7 GUIDELINES FOR DEVELOPING A BALANCED
CALIFORNIA BUDGET"**

In my "Critical Observations #1," I sought to call the attention of every Californian (beginning with myself, hopefully extending especially throughout all of the essential participants in our State Capitol and then to all Californians) to the enormous budget shortfall we and the State of California are now facing - amounting to a full-scale emergency.

In this "Critical Observations #2" - I am proposing to identify the guidelines which altogether provide a foundation to enable us to come together and enact a State budget plan that carries the State and People of California through our budget crisis with a comprehensive plan that provides real hope for our future recovery and well-being.

Those guidelines are at least these 7:

1. Ascertaining the most reliable accurate projections of precisely how large is our California State Budget crisis.
2. Adopting these healthy attitudes which best empowers us to address our crisis smartly and successfully.
3. Developing a set of criteria and rules for identifying which programs are so critical that we and our future well-being cannot afford to abandon or so weaken them as to make cutting them counter-productive.
4. Developing a comprehensive inventory of all conceivable options that could in some combination altogether enable us to meet our budget crisis and adopt a balanced budget (as expected in accordance with our California State Constitution requirement that the Governor present a balanced budget).
5. Awakening every Californian to her/his personal responsibility for informed and wise and involvement in our effort to balance our budget.
6. Reminding the media of their personal and professional responsibility for educating our California public so they develop the capacity to see and appreciate the depth of our budget crisis, and to recognize and make known their priorities for how we proceed to solve our budget crisis.
7. Expecting every key participant (legislator, advocate, interest group leader, media person) who criticizes the Governor's proposal (this intending no defense of that), to have the integrity, responsibility & grace to at the same time come up with alternatives which suffice to provide for a balanced budget.

ELABORATION OF THE 7 KEY GUIDELINES ESSENTIAL FOR ENABLING US TO MEET OUR STATE BUDGET CRISIS:

1. Ascertaining the most reliable accurate projections of precisely how large is our California State Budget crisis.

First and foremost, we owe it to ourselves to determine, to the best of our ability, the actual size of our budget hole - as the essential foundation upon which we can begin to construct our budget solution. The only way we can ever equip ourselves to solve any problem is to fully know and appreciate it in all its dimensions, so that we can then proceed smartly and responsibly to solve it.

As of now we are being offered different projections regarding the size of our budget shortfall - Governor Gray Davis estimating it to be \$35 billion, Legislative Analyst Elizabeth Hill estimating it to be closer to \$30 billion.

(Absent compelling evidence to the contrary, I am inclined to depend upon our Legislative Analyst - because she is nonpartisan and has a record for being accurate in these projections.)

2. Adopting these healthy attitudes which best empower us to address our crisis smartly and successfully.

In light of the seeming enormity of our crisis and challenge, it is essential we approach this with these healthy and empowering attitudes - if we are to have any real hope of success:

We have ourselves what at first glance appears to be an insurmountable problem.

To the contrary, we must recognize who and what we Californians are - we are not an impoverished people like Bangladesh, we are not a 3rd world nation, we are a world-class state - the 5th largest economy in the entire world.

We Californians are not short capacity, nor ought we to be short faith in ourselves and in our capacity to meet our challenge here. For, in fact, we are the finest collection of diverse talented generous smart creative persons in the entire world.

We owe it to ourselves to recognize the extent of our budget shortfall in light of the enormous wealth Californians have. Even the entirety of our \$30 billion budget shortfall amounts to no more than 3% of the entire income of \$1.5 trillion earned by Californians each calendar year (or \$1000 per person).

In times of crisis and challenge, a family pulls together (rather than apart) and joins in common commitment to discern and design the smartest strategic action plan that serves both to get us through our immediate crisis and to do so in ways that promise more to help rather than to cripple our long-range prospects for our future recovery and well-being.

We cannot afford to be divided by the pressures attendant upon our crisis, nor by roles, ideologies, parties, biases. We owe it to ourselves to dig in and together become partners in designing the overall smartest program for meeting and solving our crisis.

Instead we must lay down our arms, and build up our sense of trust and partnership and collaboration - if we are to be faithful to the California Dream, and effective in preserving and promoting the future well-being of the State and People of California.

We can and will be successful in our effort to solve our budget crisis only to the extent that we commit ourselves to restoring, practicing & modeling trust -

- Between our two houses of the Legislature; +
- Between our two political parties; +
- Between our two branches of government - legislative and executive; +
- (most of all) - Between all of us who constitute the government of California and the

People of California.

We owe it to ourselves to fully appreciate, and to enable the People of California to fully appreciate, the entire context in which we find ourselves operating, and to enact and keep a new covenant between the Government of the State of California and the People of the State of California.

3. Developing a set of criteria and rules for identifying which programs are so critical that we and our future well-being cannot afford to abandon or so weaken them as to make cutting them counter-productive.

Overall our actions must be fair to all Californians.

We must recognize which programs are bound by "maintenance of effort" and "matching" requirements by the federal government - such that our cuts will forfeit critically needed federal funds.

We must recognize and appreciate which programs provide early preventive less expensive services such that their being cut are likely to lead to our people developing in our future far greater needs for public services at far more public expense.

We owe it to ourselves to identify those programs and services which constitute "public goods" - essential investments in our own future, absent which we place our future in serious jeopardy.

Certainly into this category must be placed:

- Basic subsistence grants for our needy children;
- Basic subsistence grants for our needy seniors;
- Basic health assurances for our needy children and seniors;
- Open access & enrollment in our California Community Colleges.

We ought to be sure that in balancing our budget, we do not "eat our seed corn" (that is, make reductions that are going to reduce the likelihood of our future human talent being fully developed and realized.

4. Developing a comprehensive inventory of all conceivable options that could in some combination altogether enable us to meet our budget crisis and adopt a balanced budget (as is required by our California State Constitution).

No program should be considered "sacred," "above consideration for elimination."

Here are therefore suggestions - possible options - worth our considering as we seek to compile a listing of actions which would contribute to our accumulating and growing able to fill our budget shortfall and solve our budget crisis.

In general:

One way to frame the decisions is to assume a 1/3 cut across the board of the entirety of state and all other government programs and services - including local governments and our public schools and universities and colleges.

Since it appears clear now that we are short at least 1/3 of our annual general fund budget, that would amount to cutting each and every one of our programs by approximately 1/3 -

That could well lead to:

- Releasing 1/3 of the inmates in our state prisons;
- Denying access to 1/3 of our students in the University of California and the California State University and our California Community Colleges;
- Denying Cal-Grants to all entering university and college freshman for the coming fiscal and school year (together with reducing the amount provided current holders of Cal-Grants by 8%);
- Laying off 1/3 of the teachers in our public schools;
- Reducing the basic subsistence grants (already 20% below the federal poverty level) for California's needy children and California's needy seniors by 1/3.

* NOTE: Remember that in order to keep our state budget balanced and meet our state constitutional requirement for a balanced budget, to the extent that closer examination of the 1/3 cut standard argues against so deep a reduction, advocates against such cuts must responsibly offer alternative programs for deeper cuts to make up the difference.

Beyond that - - -

Activate immediately the Senate Select Committee on Oversight - and its appropriate counterpart committee in the Assembly - and have each of them quickly come up with a set of criteria by which each policy committee of the respective houses shall immediately proceed to hold hearings in search of feasible eliminations, cuts, consolidations, postponements, or whatever else helps meet our budget shortfall;

The leadership of each and both Houses of the Legislature shall immediately instruct each chair of each policy committee of their respective houses to forthwith meet (even jointly between the two Houses) and review all of the major programs within its jurisdiction, applying such criteria to decisions regarding their future;

Explore consolidations of State agencies and programs to accomplish budget savings.

Beyond that.....see Appendix A (attached herewith) for a more extensive but not exhaustive list of options to be considered.

5. Awakening every Californian to her/his personal responsibility for informed and wise involvement in our endeavor.

We must get the real truth and facts into the head and heart of each and every Californian - first as to the enormity of our budget shortfall and second as to the options they and we have to select among - if we are to effectively solve our budget challenge.

So often in the past we have proclaimed a budget (or other) crisis, only to ourselves find a way of solving it, such that the People of California grew either to distrust our claim in the first place, or to expect that it was entirely up to us here in our State Capitol, to unilaterally solve our problem, all without any effort or contribution or even sacrifice on their part.

We must get across now the word in a credible way that such is no longer the case. There is no possible way we in the State Capitol can meet and solve our budget crisis without the involvement, commitment, understanding and generosity of all of our people.

6. Reminding the media of their personal and professional responsibility for educating our California public so that they develop the capacity to see and appreciate the depth of our budget crisis, and to recognize and make known their priorities for how we proceed to solve our budget crisis.

Sad to say (and we in government and in politics are not without blame in this regard), what goes on here in our State Capitol is widely regarded as some kind of game, a contest, a jousting, with winners and losers amongst us all here - without much if any recognition and attention given to the fact that only truly significant winners and/or losers in this situation are the People of California.

So I appeal to the media (especially to the members of our Capitol Press Corps who like us have chosen to invest their lives here in our State Capitol) to pay special attention to the enormity of our crisis, and to your responsibility (both personal and professional) to exert and express yourselves faithfully, in ways that seek always to educate (rather than to titillate), to empower (rather than to mystify) the People of the State of California. For each and every one of us who labors here in our State Capitol has a role and a responsibility and a risk involved, and we owe it to ourselves and to the People of the State of California to fully and faithfully live up to our respective responsibilities.

7. Expecting every key participant (legislator, advocate, interest group leader, media person) who criticizes the Governor's proposal (this intending no defense of that), to have the integrity, responsibility and grace to at the same time come up with alternatives which suffice to provide for a balanced budget - in accordance with our constitutional mandate.

That brings to conclusion for now my 2nd critical observation -

"How best we approach solving our California Budget emergency."

Similarly, I hope that any one of you who reads this and publicly takes exception to all or any portion of it - will have the integrity, responsibility & grace to provide us your own proposal and guidelines for -

"How best we approach the 7 guidelines for solving our California Budget emergency."

JOHN VASCONCELLOS
Representing the Heart of Silicon Valley
Dean of the California Legislature
January 23, 2003

APPENDIX A

VARIOUS OPTIONS TO ADDRESS BUDGET SHORTFALL:

1. State Subsistence Grants:

- Aged, Blind and Disabled: The Governor proposes to cut SSI/SSP cash grants to our aged, blind and disabled Californians - both current year (right now) as well as next budget year. Translated into simple terms, today a person who qualifies for this grant receives \$758 per month to pay for food, clothing and shelter. The proposed current year cut represents a real cash reduction of about \$50 per month. Without this cut, the law would otherwise raise the grants in January of 2004 to \$774 per person. (Our cash grant level in this program is current at the federal poverty level - this cut would move our grants 4% below that poverty line.) The Governor's proposed cuts save \$660 million. If we did NOT make the \$50 reduction now, but waived the state's cost-of-living adjustment for next year, we would save \$328 million.

- Poor Children and Families: The Governor proposes to reduce the average cash grant for a family of three from \$679 to \$637 - for a monthly loss of \$42. Ironically, there is NO savings to the state for this cut in the current year and, due to federal maintenance of effort laws, there is questionable savings for the budget year. (The administration argues that the budget year savings MAY be the grand sum of \$80 million in a program that otherwise costs over \$2 billion per year in the state's general fund. So, we take \$42 a month away from families and their ability to pay rent - to accomplish what?)

2. Health Care for Needy Californians:

- Reduce the Medi-Cal rates for physicians and others providing essential health care services to California's needy seniors and needy children by 15% (assumed to save \$241 million)
- so that such health care providers would be receiving only less than half of what the fair market value of their services is at this time;

- Eliminate Medi-Cal optional services (estimated \$87.8 million savings) for needy Californians.

3. Early Investments in Child Development:

- Proposed within the Governor's large proposal to "realign" various health and welfare programs (\$8 billion proposed to be cut from the State's General Fund, to be funded by new revenue proposals to local governments) is a huge shift in child care programs from the state to the local level. This dramatic shift would move ALL but the State Preschool program among the state's subsidized child care program responsibilities from the State Department of Education to counties (over \$1 billion).

- The impact of the extent and type of cuts proposed should be evaluated against possible alternatives:

- Moratorium on new enrollees;
- Establish a sliding fee scale for participants based on income and time to both save

money and transition families toward independence.

4. K-12 Education:

- Reform K-12 apportionment formulae to provide for one-time permanent postponement of 2nd appointment into 1st month of subsequent fiscal year;

- Roll back current year K-12 COLAs to the actual cost-of-living increase for the current fiscal year;

- (in light of there being so far no credible research that demonstrates the effectiveness of this program) - Eliminate the recently enacted K-3 class size reduction program;

- Modify the recently enacted K-3 class size reduction program to allow for more flexibility in meeting its goals and requirements;

- Postpone further equalization aid proposed by the Governor's budget until such time as the state fiscal situation improves to allow such without reducing the budgets of all schools across the board;

- Examine the K-12 accountability system to reduce costs of redundancy;

- Eliminate the Golden State examination;

- Reform the state system of selecting and purchasing instructional materials (including textbooks) to gain for California schools and students the lowest prices for such;

- Examine the prospects for reducing the costs of purchasing textbooks via shifting more toward online learning and downloading of current instructional materials.

5. Higher Education:

- Deny access to the California Community Colleges to 200,000 eligible California students (one-half of them likely to be Latino);

- Postpone development of the proposed University of California campus in Merced;

- Divert 25% of the lower division undergraduate students from the California State University to the California Community Colleges;

- Encourage the development of joint higher education programs between the California State University and the California Community Colleges (a la the San Francisco State University-San Mateo Community College District agreement and model);

- Hasten development of a smart comprehensive stateside program for providing on-line Internet higher education learning;

- Eliminate non-need-based student financial aid.

6. Local Government:

- Local governments are also experiencing significant shortfalls in revenues along with the state. There is a fundamental interdependence between the state and local governments which needs clear focus and debate when creating a balanced budgets in this shortfall;

- Appropriate committees could review the totality of local and state revenue fluctuation and devise a formula for sharing the down times as well as the up times in our economic cycles to support a baseline of services;

- For those programs, the state as well as local governments should jointly fund a review of primary policy interest, and responsibility in the overall purpose of the program could drive review of the realignment proposal offered by the Governor. But, none of these programs ought to be eliminated without a clear decision as to who has the primary interest in their purpose (e.g., early childhood development vs. in-home supportive services, etc.) and what type of commitment the state has that local government will, in fact, attend to those purposes.

7. Economic Development:

- Fully activate the California Economic Strategy Panel, which was created in 1992 - during the last California recession - to be our state's watchdog on our economy, to alert the Governor and Legislature of any emerging obstacle and/or threat to our continuing economic prosperity;

- Adopt a new comprehensive system of accountability regarding every State of California program that seeks to encourage economic development - both those which operate as tax subsidies for our private sector and those which pay for state programs that seek to spur economic development.

8. Public Safety:

- Reduce the administration in the central office of the State Department of Corrections by 33%;

- Apply retroactively the provisions of Proposition 36 enacted by the People of California in 1998 - and release from prison and/or jail and instead enroll in treatment programs those inmates in our state prisons (or county jails) who fit the terms and conditions of Proposition 36;

- Examine what happened to the \$500 million increase that was appropriated in the 2001/2002 budget year for CDC, particularly to upgrade the effectiveness of the parole offices. Since the recidivism rate has approached 70% for non-lifers (100,000 out of 160,000 inmates), the value of this investment needs to be closely evaluated. (Potential savings: \$500 million);

- Non-violent inmates -- Almost 2/3 of all inmates have committed crimes that are non-violent (i.e. drug or property offenses). Over half of all inmates have been classified as Level 1 or 2 security Level (out of 4). 7,000 inmates have one year or less to serve on a conviction for a non-violent offense. If all of those inmates were placed on a high-supervision caseload on parole, where they received appropriate re-integration services geared to ensuring their success in the

community, the state would save \$82 million the first year. (Potential savings: up to \$82 million/year.) There were approximately 19,000 inmates categorized as controlled substance convictions when Proposition 36 passed. Today, there are 15,000 such inmates - a reduction of 4,000. Shouldn't there be a correlating \$120 million savings associated with fewer inmates? If parole violators comprise over 70,000 of the inmates, and over half of these violators are there for technical violations that do not include new crimes, why are not finding alternatives to prison for technical violators? (Potential savings: up to \$2 billion);

- Elderly inmates -- There are 268 inmates over age 60 who are incarcerated for non-violent crimes. There are hundreds more that are incarcerated for violent crimes committed when they were young and who, arguably, are beyond being a risk to society if released. The medical care for these inmates is very expensive. These inmates could be released to home detention, electronic monitoring, or parole (as appropriate for the offender), at a cost savings to the state of \$3-5 million (depends on the number and the ultimate placement of each inmate). (Potential savings: \$3-5 million);

- The 602 Inmate Appeals process is typically a rubberstamp denial -- essentially worthless, unless taken to appeal (and then it's barely effective). Remove the initial portion of the process and send them all to appeals to begin with. (Potential savings: \$25 million);

- Old "lifers" -- Re-evaluate cases of inmates sentenced to "term-to-life" who have been incarcerated for a very long time to determine if they would be a threat to society if released. If 1,000 old-timers were released, you'd save the annual cost of incarceration plus up to \$ 3 million/year in medical and housing expenses, even if put on high security parole caseloads. [see SB 1497, 2002 (Polanco)] (Potential savings: \$28 million/year);

- Overtime and sick leave usage -- A BSA audit found that if CDC filled its vacant correctional officer positions to alleviate the excessive overtime use, and developed a mechanism to reduce sick leave usage, it would save \$42 million and \$17-29 million, respectively. (Potential savings: up to \$71 million);

- Close one or two women's prisons -- The women's inmate population has significantly decreased with the advent of Prop 36. CDC is already considering closing one women's prison. The Northern California Women's Facility houses 800 inmates. Closing it would result in savings of \$8.5 million in the first year and over \$10 million each subsequent year. Calif. Inst. for Women in So. Cal. houses over 2,000 inmates. Closing it would save the state approx. \$24 million/year. Some women could be relocated to halfway house-type settings in the community where they could interact with their children (80% have children) and could receive services and skills training. (Potential savings: \$34 million/year);

- Sentencing changes -- Amend the sentence for certain non-violent offenses so that they are not included in sentence enhancement provisions such as "3 Strikes." Depending on which crimes are amended, the state could save \$50 million. [see also SB 1517 (Polanco), 2002] (Potential savings: \$50 million);

- CDC has acted to bar inmate ready access to the press. So, why are prisons given a budget for Public Relations Officers when that practice is handled centrally via CDC headquarters? (Potential savings: \$5 million.)

9. Revenue Enhancements (to use the "euphemism" invented some years ago to soften the blow of otherwise thought-to-be-essential tax & fee increases):

- Allow the vehicle license fee to revert to its earlier higher level (in accordance with the understanding that such would occur at such times as the State was short of money (as it now certainly is);

- Increase the state sales tax by one cent on purchases of goods currently sales taxable;

- Expand the state (and local) sales tax to include services (which are becoming ever more common, to the decline of the exchange of goods);

- Impose temporarily (with triggers to end it upon sufficient economic recovery) a 2% income tax surcharge upon individual Californians earning more than \$100,000/year adjusted gross income;

- Lower temporarily the threshold below which individual Californians pay no personal income tax threshold to \$30,000 annual income;

- Put onto the California ballot for voter determination the proposal for splitting the tax rolls between residential and commercial/business - so as to restore the historic ratio between real property taxes paid by business and real property taxes paid by residents.